Ferguson: Energy Matters

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Only So Many Dinosaurs

On July 18, while the price of oil was rising above $75 per barrel in New York, the National Petroleum Council released its report on the world energy picture. The influential NPC is an official advisor to the U.S. Secretary of Energy. Thus, its report is a reasonable estimate of where U.S. energy policy is headed.

I found the report more interesting for what it didn't say—or said in code—than for what it did say.

The oil and gas industry still wants to drill in places that are off limits, such as the California coast. No surprises there. Energy consumption is projected to grow more or less as it has been growing. Global energy resources are plentiful. We should continue to rely on market solutions, and so on. Yawn.

The report does offer an indication that the industry is paying at least some attention to the real world. Its emphasis on policies to reduce the growth in demand was refreshing, especially since the gang currently running the White House thinks this is a matter of personal virtue. The report also calls for a coherent policy on greenhouse gas emissions and promotes unconventional energy sources.

There is little or no discussion, however, about the major issue of the day—namely whether the Middle East can and will continue to pump increasing amounts of cheap oil and gas into global markets. Instead, the report refers vaguely to "accumulating risks" associated with increasing supplies of oil and gas, citing "global uncertainties" in production capacities and geopolitical "complications".

I suspect that when the oil industry was secretly closeted with Vice President Dick Cheney in the early days of the administration it was much more explicit about what was going on and what needed to be done.

The future price of oil is another touchy subject the report conveniently avoids. Given recent industry profits, perhaps there was reluctance to admit that prices and profits are not likely to decline any time soon. Since the report projects that consumption will continue to grow, it must assume that oil prices do not explode but offers no basis for that assumption either. It's just the conventional wisdom.

Nor could I find discussion of the related problems of U.S. oil imports, trade deficits, and the value of the dollar. Evidently these worries are best left to the magic of the marketplace. But the rapid changes in this marketplace are also not discussed—unless you count the vague reference to geopolitical complications as a discussion.

Another of the "hard truths" the report doesn't discuss is the fact that governments now control oil production in 13 of the top 15 oil exporting countries. The population in most of these is hostile to U.S. interests, a fact that the war in Iraq has exacerbated. Independent production companies like BP, Shell, and Exxon which were involved in the report control a rapidly diminishing amount of global oil.

I suppose it is too much to expect a report like this to address the really thorny issues. Writing by committee ensures a product that avoids difficult controversial questions. That the report can espouse the efficiency of automobiles (but not trucks or airplanes) indicates that this subject is now safe to talk about. Addressing climate is also safe, even though the projections show continued rapid growth in greenhouse gas emissions. Discussion of alternative energy sources also has entered the mainstream.

Despite all this, however, the report assumes that growth in the consumption of oil and gas will continue unabated in the next 25 years much as it has in the past. Perhaps it will. Perhaps I'm just a worrywart.

But my guess is that the energy world is changing faster than the oil and gas industry would like to admit in public. Yes, there is still plenty of oil in the ground, but depletion is a fact of life and those in control of that oil—the Saudis, Iranians, Russians, Venezuelans, etc.—will seek to maximize its value to themselves and not to the U.S. After all, there were only so many dinosaurs.

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